

Message Text

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INFO OCT-01 ISO-00 SSO-00 CCO-00 NSCE-00 /031 R

DRAFTED BY NEA/IAI:EWBIZIC:SKG

APPROVED BY NEA:SSOBER

NEA/IAI:HHSTACKHOUSE

T:GSNEWMAN

PM/SAS:JFLADD

S/S:SEFRY

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P 070231Z JUN 74

FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV PRIORITY

S E C R E T STATE 120319

EXDIS

E.O. 11652: GDS

TAGS: EAID, MASS, OVIP, IS

SUBJECT: PRESIDENTIAL VISIT - U.S. ASSISTANCE TO ISRAEL

1. SUMMARY. ISRAELI EMBASSY ECONOMIC MINISTER SHER CALLED ON NEWMAN (T) AND LADD (PM/SAS) MAY 31 TO DISCUSS FOLLOWING MATTERS: (1) REMAINING DOLLARS 500 MILLION ALLOWABLE AS GRANT UNDER DOLLARS 2.2 BILLION EMERGENCY SECURITY ASSISTANCE AUTHORIZATION; (2) ASSURANCE OF USG ASSISTANCE IN FINANCING DOLLARS 3 BILLION IN MILITARY EQUIPMENT PURCHASES FROM U.S. OVER NEXT THREE YEARS; (3) CREATION OF JOINT ECONOMIC COMMISSION AS EVIDENCE U.S. ECONOMIC SUPPORT FOR AND COOPERATION WITH ISRAEL;

AND (4) ASSURANCE THAT ISRAEL COULD PURCHASE CERTAIN STRATEGIC MATERIALS THROUGH U.S. IF NECESSARY. SHER SAID HE THOUGHT GOI WOULD RAISE THESE MATTERS DURING PRESIDENT'S VISIT. END SUMMARY.

2. ISRAELI EMBASSY ECONOMIC MINISTER SHER CALLED ON

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NEWMAN AND LADD TO DISCUSS MATTERS SHER THOUGHT GOI WOULD

RAISE DURING PRESIDENT'S VISIT. SHER SAID HE WANTED TO REMIND DEPARTMENT THAT GOI STILL INTERESTED IN REMAINING DOLLARS 500 MILLION ALLOWABLE AS GRANT UNDER DOLLARS 2.2 BILLION EMERGENCY SECURITY ASSISTANCE AUTHORIZATION. HE EXPRESSED HOPE PRESIDENT COULD BRING THIS GRANT DETERMINATION TO ISRAEL NOW THAT GOI IN PROCESS OF SIGNING CREDIT AGREEMENTS WITH DOD FOR DOLLARS 1.2 BILLION IN MILITARY EQUIPMENT

3. SHER NEXT TURNED TO SUBJECT OF GOI DIRECT MILITARY PURCHASES IN U.S. HE NOTED GOI HAS ALREADY SIGNED PURCHASE CONTRACTS WITH DOD FOR NEARLY ENTIRE DOLLARS 2.2 BILLION EMERGENCY SECURITY ASSISTANCE. HOWEVER, THERE ARE ADDITIONAL GOI REQUESTS FOR EQUIPMENT AMOUNTING TO DOLLARS 1.5 BILLION THAT REMAIN TO BE FILLED. SHER SAID THAT FINANCE MINISTER SAPIR HAD RECENTLY ESTIMATED ISRAEL'S TOTAL DEFENSE COSTS FOR PERIOD FY 76-78 INCLUSIVE AT DOLLARS 10 BILLION. IN THIS PERIOD GOI WILL BE SPENDING ANNUALLY FROM ITS RESOURCES DOLLARS 3 BILLION IN FOREIGN EXCHANGE FOR DIRECT IMPORTS OF RAW MATERIALS FOR DEFENSE INDUSTRIES AND INDIRECT COSTS FOR IDF. SHER POINTED OUT THAT MOST IMPORTANT FIGURE WAS DOLLARS 3 BILLION IN FOREIGN EXCHANGE THAT GOI ESTIMATES WILL BE NEEDED FOR DIRECT PURCHASES OF MILITARY EQUIPMENT IN U.S. FROM DOD AND ON COMMERCIAL MARKET (NEARLY DOLLARS 200 MILLION ANNUALLY) DURING PERIOD INDICATED. SHER STATED GOI WILL REQUIRE FINANCING ASSISTANCE FOR TOTAL ESTIMATED DOLLARS 3 BILLION OVER THREE-YEARS PERIOD, AND ADDED THAT SAPIR HAD MENTIONED MATTER TO SECRETARY DURING RECENT VISIT TO ISRAEL.

4. SHER SAID THAT THESE FIGURES ARE ROUGH ESTIMATES AND ARE BASED ON ISRAEL'S DEFENSE PROGRAM WHICH DEFENSE MINISTER DAYAN HAD PRESENTED TO DOD SECRETARY SCHLESINGER LAST MARCH. SHER EXPRESSED HOPE USG COULD PROVIDE GOI WITH FINANCIAL ASSISTANCE UNDER ONE-TIME CONTINUING AUTHORIZATION FOR ONGOING ARMS PURCHASE PROGRAM OR PROPORTIONAL ANNUAL PROGRAM TO MEET THESE NEEDS. SHER COMMENTED THAT USG DECISION ON THIS ASSISTANCE NOW WOULD BE HELPFUL IN FOLLOWING WAYS: (A) INDICATION OF "ENVIRONMENT" OF U.S.-ISRAELI RELATIONS; (B) ASSURANCE TO NEW GOI THAT NECESSARY ARMS WILL BE PAID FOR; AND (C) PERMIT NEW GOI SET NEW ECONOMIC POLICY NECESSARY FOR GROWTH AND STABILITY.

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5. SHER ALSO COMMENTED BRIEFLY ON PROBLEMS GOI HAS ENCOUNTERED IN OBTAINING COMMERCIAL LOANS FOR FY 74 FMS ALTHOUGH GUARANTEED BY USG UP TO 20 YEARS. HE SAID HE SENSED DISLIKE FOR GIVING MONEY TO ISRAEL AND HESITATION OUT OF BELIEF THAT U.S.-ISRAELI RELATIONS MIGHT DETERIORATE IN VIEW OF IMPROVING U.S. RELATIONS WITH THE ARABS. THERE WAS ALSO SOME MISUNDERSTANDING AMONG POSSIBLE CREDITORS RE EXTENT

USG GUARANTY. SHER STATED HE NOT ASKING USG TO DO ANYTHING AT THIS POINT BUT HE MAY HAVE TO COME BACK TO US.

6. IN LIGHT OF ABOVE (PARA 5) SHER SAID GOI WOULD FAVOR ESTABLISHMENT OF JOINT U.S.-ISRAELI ECONOMIC COMMISSION (SUCH AS THE U.S.-JAPAN AND U.S.-USSR ECONOMIC COMMISSIONS) TO HANDLE BILATERAL ECONOMIC AFFAIRS AS BEST WAY TO ENHANCE ATMOSPHERE OF ECONOMIC RELATIONS. HE POINTED TO RECENT U.S.-SAUDI STATEMENT ON ECONOMIC COOPERATION AND ESTABLISHMENT OF BILATERAL COMMISSIONS AS EXAMPLE OF WHAT HE HAD IN MIND. SUCH PUBLIC DOCUMENT WOULD SHOW USG INTERESTED IN SEEING AMERICAN FIRMS DEAL WITH ISRAEL AND WOULD ENCOURAGE AMERICAN INVESTMENT THERE.

7. FINALLY SHER SAID GOI WOULD LIKE TO HAVE WRITTEN ASSURANCE THAT ISRAEL WOULD BE ABLE TO PURCHASE CERTAIN STRATEGIC RAW MATERIALS (E.G., COPPER, IRON, DIAMONDS, BAUXITE) THROUGH U.S. IF NECESSARY.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE, RAW MATERIALS, MILITARY SALES, INTERGOVERNMENTAL COOPERATION, CHIEF OF STATE VISITS, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 JUN 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: smithrj
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE120319
Document Source: CORE
Document Unique ID: 00
Drafter: EWBIZIC:SKG
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740144-0503
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740664/aaaacdcz.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: smithrj
Review Comment: n/a
Review Content Flags:
Review Date: 20 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 AUG 2002 by shawdg>; APPROVED <19 FEB 2003 by smithrj>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRESIDENTIAL VISIT - U.S. ASSISTANCE TO ISRAEL
TAGS: EAID, MASS, OVIP, IS, US, (NIXON, RICHARD M), (SHER, ZE'EV)
To: TEL AVIV
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005